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ABSTRACT

Foreign currency units, exchange rates, the international payments process, and spending money abroad are discussed briefly in this booklet to help teachers explain the international economy. Thirty-two countries are listed with their respective currency units, some of which are illustrated. A chart shows the average yearly exchange rates between U.S. dollars and the currency units of selected nations during the 10-year period 1978-1987. The reason for changes in exchange rates are explained. A diagram illustrates the international payments process, and the use of travelers checks for spending money abroad is discussed. (JB)

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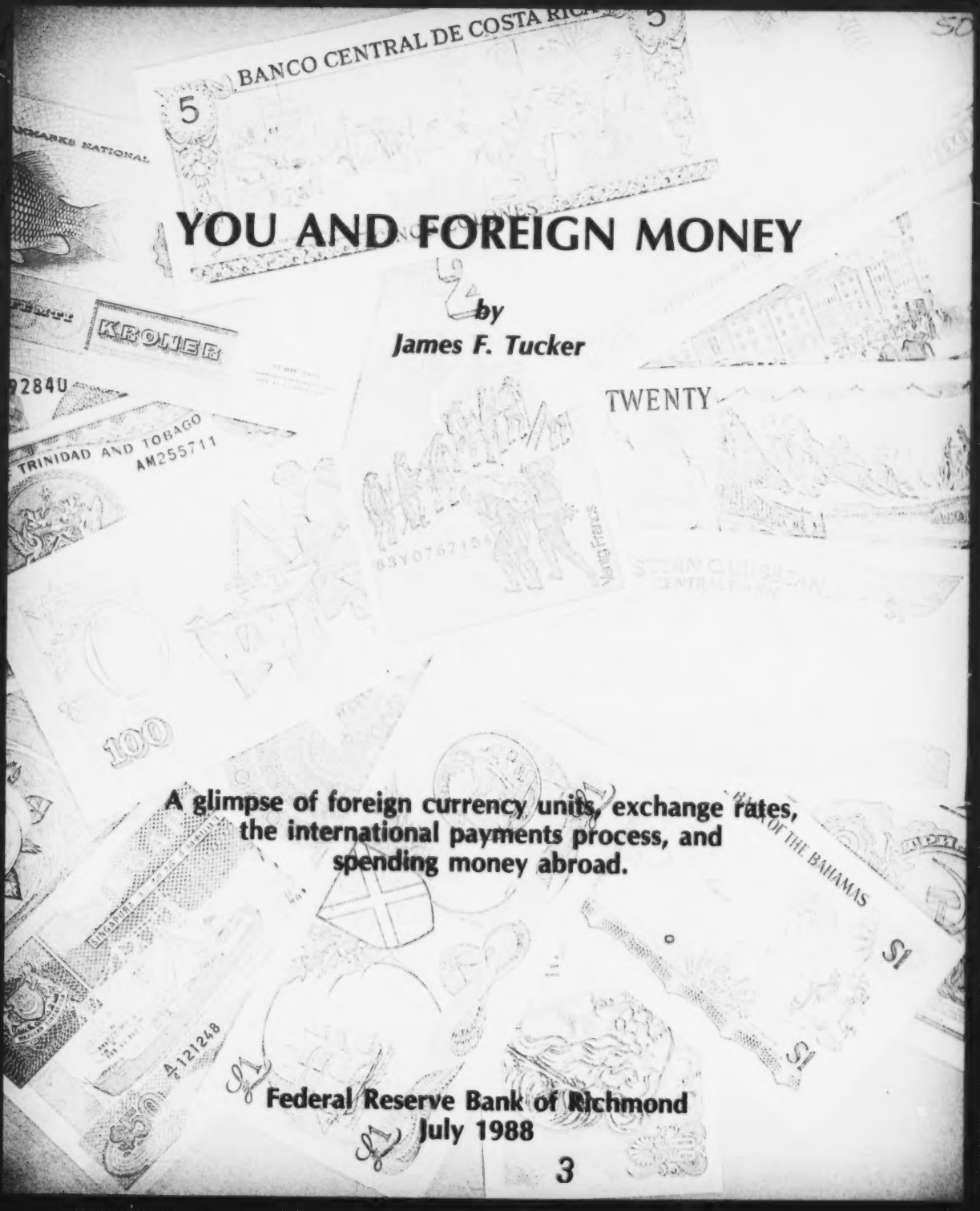
YOU AND FOREIGN MONEY



YOU AND FOREIGN MONEY

by

James F. Tucker

A glimpse of foreign currency units, exchange rates, the international payments process, and spending money abroad.

Federal Reserve Bank of Richmond
July 1988

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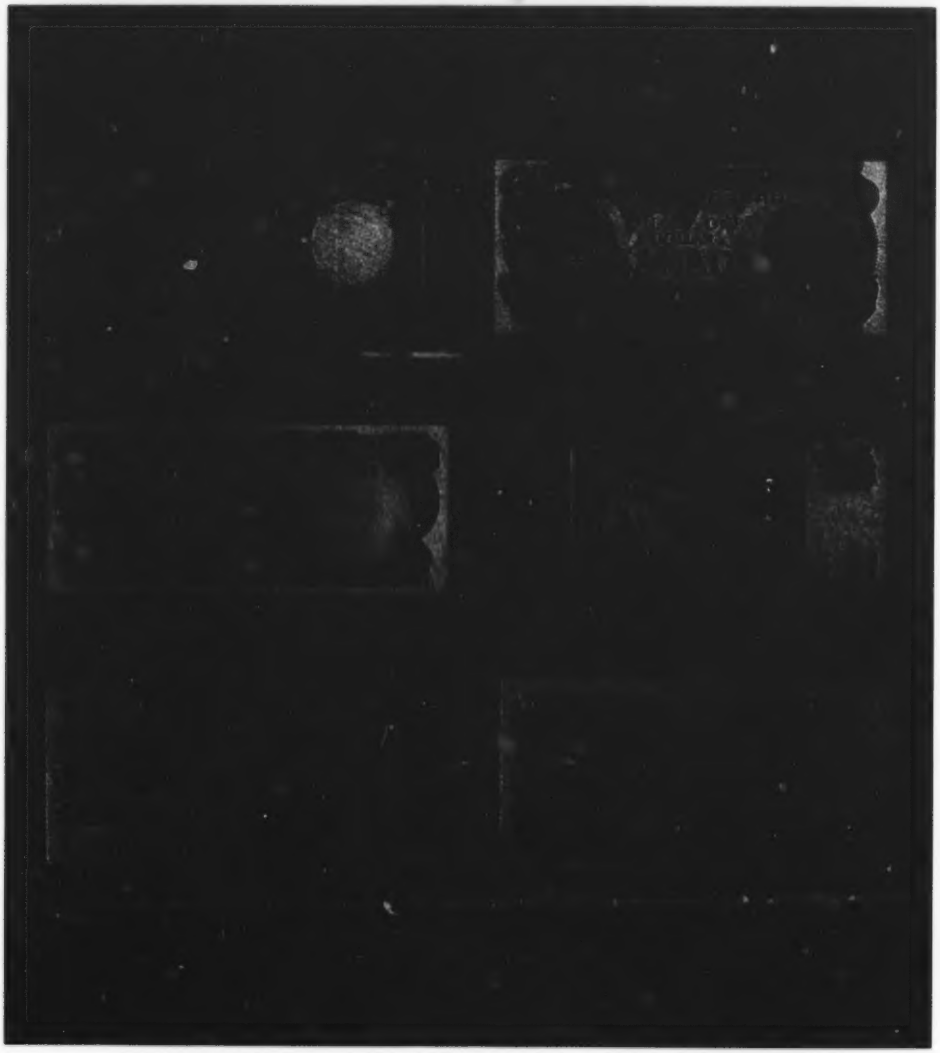
SIX "OTHER DOLLARS"



FOREIGN CURRENCY UNITS

When you buy or sell products or services in the United States, you use U.S. currency, namely dollars, or some fraction of dollars in the form of coins. On the other hand, when you buy or sell products in foreign countries, you must use the currency of the country with which you are conducting business.

The following is a list of selected countries and the names of their currency units.

COUNTRY	CURRENCY UNIT	COUNTRY	CURRENCY UNIT
Australia	dollar	Mexico	peso
Austria	schilling	Netherlands	guilder
Belgium	franc	New Zealand	dollar
Canada	dollar	Norway	krone
China, P.R.	yuan	Portugal	escudo
Denmark	krone	Saudi Arabia	riyal
France	franc	Singapore	dollar
Germany, F.R.	deutsche mark	South Africa	rand
Greece	drachma	Spain	peseta
Hong Kong	dollar	Sri Lanka	rupee
India	rupee	Sweden	krona
Ireland	pound	Switzerland	franc
Italy	lira	Bahamas	dollar
Japan	yen	Thailand	baht
Korea, Rep. of	won	United Kingdom	pound
Malaysia	ringgit	USSR	ruble

FOREIGN CURRENCY

EXCHANGE RATES

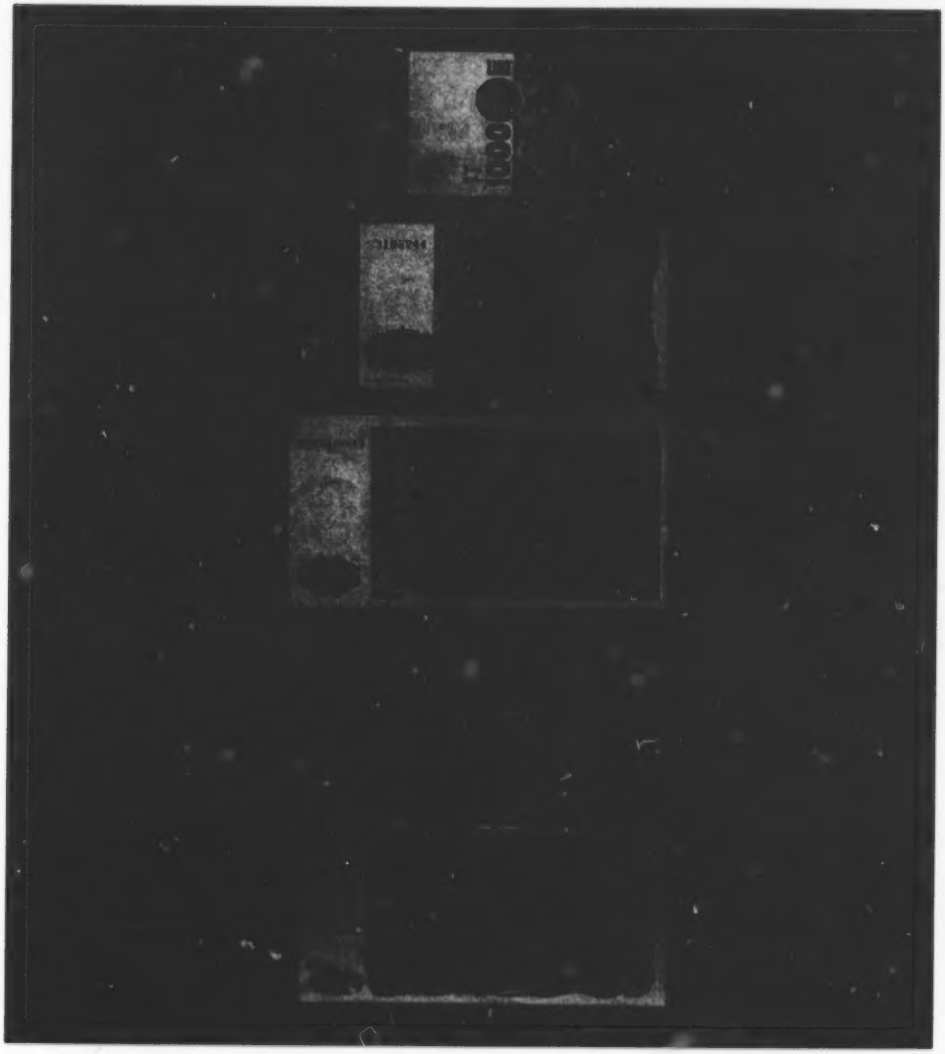
The exchange rate is simply the number of units of one nation's currency that exchanges for a unit of another nation's currency. Below are the average yearly exchange rates between U.S. dollars and the currency units of selected nations during the ten-year period, 1978-87.

Foreign exchange rates, 1978-87

(Currency units per U.S. dollar)

Period	Belgium (franc)	Canada (dollar)	France (franc)	Germany (deutsche mark)	Italy (lira)	Japan (yen)
1978	31.493	1.1405	4.5090	2.0096	849.12	210.38
1979	29.342	1.1713	4.2567	1.8342	831.10	219.02
1980	29.237	1.1693	4.2250	1.8175	856.20	226.63
1981	37.194	1.1990	5.4396	2.2631	1138.58	220.63
1982	45.780	1.2344	6.5793	2.4280	1354.00	249.06
1983	51.121	1.2325	7.6203	2.5539	1519.32	237.55
1984	57.749	1.2963	8.7355	2.8454	1756.11	237.45
1985	59.336	1.3658	8.9799	2.9419	1908.88	238.47
1986	44.662	1.3896	6.9256	2.1704	1491.16	168.35
1987	37.357	1.3259	6.0121	1.7981	1297.03	144.60

FOREIGN CURRENCY



CHANGES IN EXCHANGE RATES

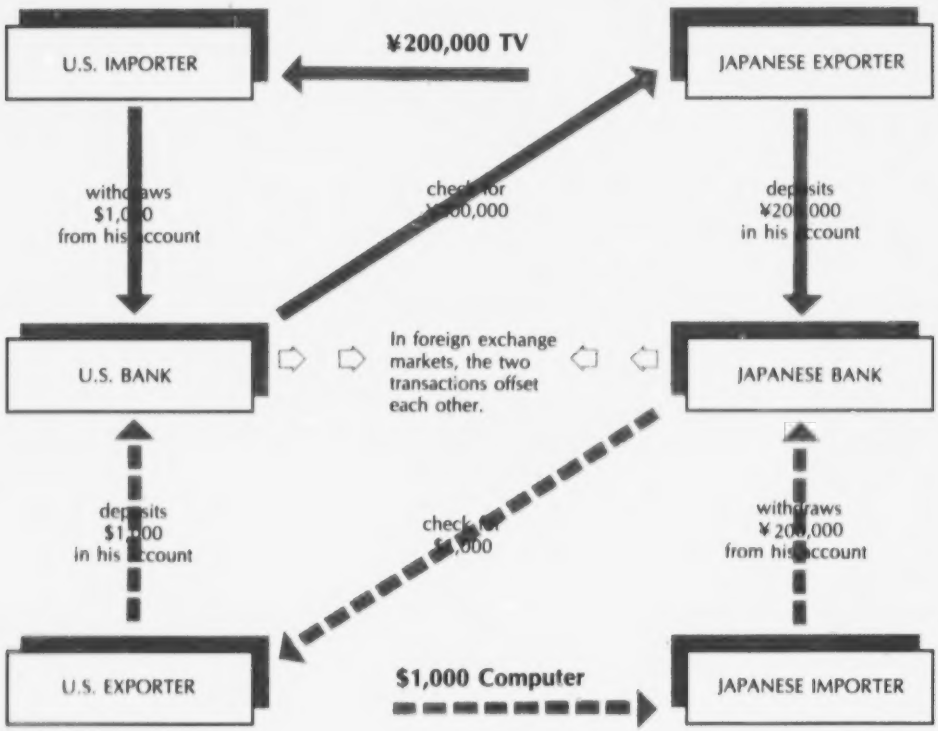
Exchange rates between various currency units change frequently. These changes result from trade and lending among countries which, in turn, cause changes in the demand for and supply of various currency units.

If on a single day, Americans buy many television sets directly from Japan, and no other transactions between people in the United States and Japan take place that day, Americans must "buy" yen with their dollars to pay for the sets. This will increase the *demand* for yen (Americans want to buy more) and will increase the *supply* of dollars (Americans will seek to sell dollars in order to purchase yen). The increased demand for yen and the increased supply of dollars could cause the exchange rate on that day to change. For example, assume that the surge in sales of Japanese-made television sets to Americans and the resulting changes in the supply of and demand for currencies has reduced the price of dollars in terms of yen—from 128 yen per dollar to 125 yen per dollar.

Change in the Exchange Rate
from
$1.00 = ¥128
to
$1.00 = ¥125

This would mean that the price of yen has risen in terms of dollars; before, you could buy ¥128 for $1.00, but now ¥128 would cost you $1.024. Under such circumstances, we say that the yen has appreciated, or risen, against the dollar, or that the dollar has depreciated, or fallen, against the yen.

THE PROCESS OF INTERNATIONAL PAYMENTS



Dollars spent by U.S. importers end up as dollars received by U.S. exporters.

Yen spent by Japanese importers end up as yen received by Japanese exporters.

INTERNATIONAL PAYMENTS

When people in different countries decide to buy or sell commodities or services, they must consider how payments will be made. Suppose you, as an American, purchase a television set directly from a manufacturer in Japan. How, when, and where will the Japanese manufacturer get his yen so that he can spend the money in Japan?

First, you would write a check for $1,000 which your bank would convert to ¥200,000. When the Japanese manufacturer receives your payment in yen, he takes it to his bank and cashes it or adds it to his account there. The bank in Japan now has a check from a bank in the United States that promises to pay a certain amount of yen.

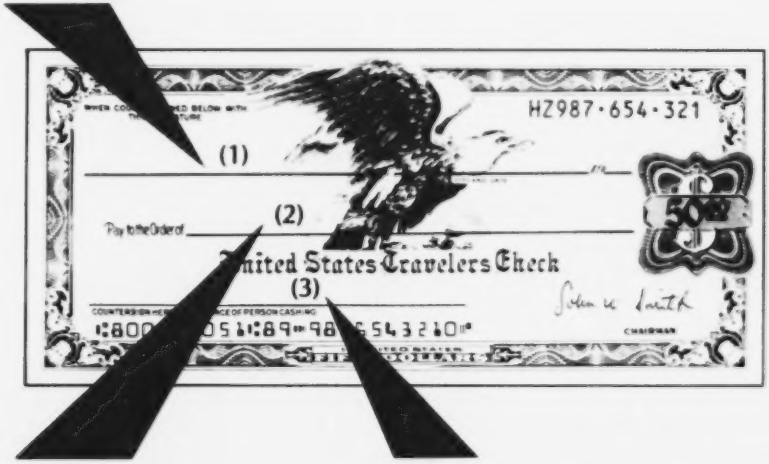
Suppose that at the same time you paid for your television set, a resident of Japan paid a U.S. manufacturer $1,000 for a computer. The example on the opposite page illustrates the path of both transactions.

Thus, when trade is in balance, money of different nations does not actually change hands across the seas. In this example, the value of Japan's exports to the United States equals the value of Japan's imports from the United States, so the yen that Japanese importers use to buy dollars to pay for American goods are just equal to the yen that Japanese exporters receive in payment for the goods they send to the United States. A similar equality would exist in the dollars flowing, in effect, from U.S. importers to U.S. exporters.

In theory, therefore, importers in a country pay the exporters in that same country in their nation's currency. In practice, however, exporters and importers in the same country do not need to get together in order to carry through the payment. These transactions are handled by banks.

USING TRAVELERS CHECKS

(1) As soon as you purchase the travelers checks here in the United States, immediately sign each check on this line.



(2) When you are ready to pay for a product or service, write the name of the seller on this line.

(3) You should sign your name on this line only when you are ready to pay your bill. The seller must witness your signature.

TRAVELING ABROAD

As an American traveling abroad, you may wish to take a certain amount of U.S. currency to exchange for the currency at a foreign bank. This exchange will be made at the current exchange rate (minus any fees charged).

The currency transaction is similar to that which occurs when an American business firm imports a product from a foreign country. For example, if you are in Italy as a tourist and decide to buy souvenirs in Rome, you must pay for your purchases with lira. As a result, your purchases increase the demand for lira and also increase the supply of dollars (which you exchanged for lira) in the international economy.

In addition to or as an alternative to carrying cash, you may wish to buy travelers checks before you leave for your trip. Safety is the primary reason for carrying travelers checks. If they are lost or stolen, you can usually be reimbursed for their value. To make purchases from some business establishments abroad, particularly the smaller ones, you may still need to convert your travelers checks to the currency of that foreign country.

You may purchase travelers checks from your local commercial bank or from other authorized sellers. The seller will inform you on how to fill out the check and where to record your serial numbers. On the opposite page is a sample travelers check, along with the appropriate instructions for its use.

If you do not spend all of your foreign currency while abroad and do not get a chance to exchange it for U.S. currency before leaving, you may exchange the foreign currency when you return home. Most banks, however, will not accept foreign coins in the exchange.

OTHER PUBLICATIONS ON MONEY . . .

MONEY — A brochure for the general public that discusses the various definitions of money, along with a brief description of how it is created, gets into circulation, and is valued.

OUR MONEY — An instructional unit consisting of a booklet and various exercises intended to inform students in grades 8-12 about the coins and currency used by Americans to conduct their daily transactions.

MY MONEY — A four-part series of published materials on the money most likely to be used by elementary school students in their financial transactions.

YOUR MONEY — A booklet for the general public and high school students that discusses the characteristics of money, its creation, function, and value, along with a description of the different kinds of U.S. currency.

. . . by the Federal Reserve Bank of Richmond

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